Financial Panel Report

Analysis and Recommendation

Panel members should review the institutional report and supplementary documents and provide their analysis and recommendation on whether the institution is at risk of not meeting the Criteria for Accreditation. If the panel decides that additional information is necessary to make a recommendation, the panel lead should contact HLC to obtain that information. See the Financial and Non-financial Indicator Process for additional details.

Submission Instructions
After ensuring that all part of the form are complete, the panel lead should upload the Financial Panel Report to the panel page in the HLC Portal.

Institution: Wright State University

City: Dayton   State: OH

Date of panel review: November 26, 2018

Financial Panel members:

Phillip Pena, John Gratton, and Frank Gersich (lead)

Previous HLC action regarding the institution's financial report (if applicable):

Items addressed in the report:

On August 8, 2018, Wright State University was notified by HLC that its 2018 Institutional Update revealed that its CFI scores indicated the institution was experiencing financial difficulty. Wright State University's Composite Financial Index (CFI) score for fiscal 2017 was 0.60 and 0.60 for fiscal 2016. Because the CFI scores were "in the zone" for the last two years, the institution was required to submit a report for review by this financial panel.

The Wright State University ratios reported in the 2017-18 Institutional Update were:

Weighted Ratio	Fiscal 2017	Fiscal 2016	Fiscal 2015
Primary Reserve CFI	0.58	0.70	1.14
Net Operating Revenue CFI	(0.40)	(0.40)	(0.40)
Return on Net Assets CFI	(0.49)	(0.73)	(0.44)
Viability CFI	0.92	1.05	1.46
Total CFI	0.61	0.62	1.76

NOTE: The institution provided insufficient financial information to estimate these ratios for fiscal 2018.

Panel Analysis

The institution's audited financial statements for fiscal 2017 reported a decrease in unrestricted net assets of $25 million. The variances from its 2017 budget were a $27.2 million negative variance in total revenue and a $2.2 million positive variance in total expenses and transfers. The primarily revenue variance component was a $23 million negative variance in Gifts, Contributions & Other Revenue, a $8.7 million negative variance in tuition and fees, and a $3.2 million positive variance in state appropriations.

The unaudited financial statements included in the institution's financial indicator report reported an anticipated increase of $7.3 million in unrestricted net assets for fiscal 2018 – which was a $3.5 million positive budget variance for the year.

The fiscal 2019 budget included in the institution's financial report reports a $3 million positive increase in unrestricted net assets. The estimated revenues are $276 million – a 4.2% decrease from actual 2018 revenues – and budgeted expenses and transfers are $273 million – a 2.6% decrease from actual 2018 expenses and transfers.

From the Management Discussion and Analysis section of the fiscal 2017 and 2016 financial statements, the following enrollment (headcount) information was gathered:

- Fall 2016 -- 17,775,
- Fall 2015 – 18,059
- Fall 2014 – 17,770
- Fall 2013 – 17,595

The enrollment report, in the August 2017 board minutes, indicated than headcount would be 1.84% lower than the previous year. The February 2018 board minutes reported that preliminary Spring 2018 enrollment was down approximately 1,000 students (a 7% decline) from the year before. The institution reports that it has engaged a well-known national consulting firm to evaluate its enrollment management function. Furthermore, it is working on an enrollment plan and will be searching for a VP of Enrollment Management in the next academic year.

The Finance Committee of the Board of Trustees at its August 12, 2016 meeting revised its meeting schedule to nine meetings per year from four to more effectively assist planning for the University's

finances. Furthermore, the agenda for the 2017 fiscal year was announced as working with the administration on:

1. Developing a monthly financial performance measure to ensure the University does not overspend revenue.
2. Enhancing transparency of Wright State's financial position by providing financial information more frequently to University stakeholders.
3. Reviewing and revising, as appropriate, the 2003 Wright State's Financial Governance policy. The purpose of the update is to create an effective policy, with appropriate guidelines, to ensure a sound financial base is in place to support the University's academic mission.
4. Reviewing and revising, as necessary, Wright State's Investment Policy Statement after conducting a comprehensive review of the policy in FY 2017.

The Finance Committee minutes from May 29, 2017 note that it has finalized the Financial Governance Policy revisions and the policy had been submitted to the Board of Trustees for approval on June 8, 2017.

The September 15, 2017 Finance committee minutes reported on $10.25 million in spending reductions for fiscal 2018. The components of this reduction were:

- $3.25 million from eliminating currently vacant positions,
- $4.5 million from not filling or deferring future vacancies,
- $1.0 million in summer teaching loads, and
- $1.5 million in discretionary spending.

The February 23, 2018 Finance Committee minutes report discusses the following metrics as part of its Financial Governance Policy:

- The CFI and its four component ratios,
- Liquidity measures -- Cash Flow ratio, debt Burden ratio, debt coverage ratio, and the leverage ratio.
- The Age of Facilities metric,
- The Financial Aid metric,
- The Fichtenbaum-Bunsis score – this metric includes the viability ratio, primary reserve ratio, net asset ratio, and the cash flow ratio.
- The Financial Resources to Debt ratio,
- The Financial Resources per Student ratio, and the
- The Operating Margin Ratio.

However, not all of the current metric/ratio scores and no trends were reported for these ratios. A 5-year spending analysis was reported as being received from its Institutional Research office; however, this information was not included in the minutes.

The May 19, 2017 finance committee minutes provide an overview of the process used to revise the Investment Policy Statement (IPS) by the students in an MBA class. The stated goal was to develop a

"long-term Investment Policy Statement designed to support Wright State's Financial Governance Policy in providing operating capital reserves through sound investment principles." The IPS objectives were identified as safety, liquidity, and the highest possible return on investment. The student's recommendations were incorporated into a draft IPS that would be distributed to the campus community for comments/feedback. The comments/feedback would then be considered by the Finance Committee for the final revision of the IPS before its submission to the full Board of Trustees for approval. The revised draft was considered at the Finance Committee's January 19, 2018 meeting. That meetings discussion yielded several suggestions for changes and the minutes note that a second draft would be brought to the committee in the spring for further review. The minutes provided to the review team do not indicate if the IPS was submitted to the Board of Trustees for approval, and if so, the anticipated impact of that change.

The institution has developed a financial sustainability plan. In its report for the October 2018 board meeting this report contained a total of 97 projects anticipated to improve its financial situation. The table below reports the number of projects designed to increase revenue or reduce expenses and their importance to the institution.

Project type	Revenue Enhancements	Operational Efficiencies
Priority	6	4
Additional	31	56

Many of the projects are in the evaluation stage and none report the anticipated impact on the financial health on the institution – however, the project is identified as recurring or not.

The institution has also developed the "Wright Guarantee Tuition Program." The guarantee is designed to provide "all eligible new first year undergraduate students and their families the certainty that in-state instructional and general fees, room and meal plan charges will not increase over the ensuing four academic year period (12 consecutive semesters including summer terms)."

NOTE: In future reports for review by a financial panel, the institution is encouraged to provide the evidence in a bookmarked .pdf or another method of organization to facilitate the finding of relevant information for the panel's review.

Panel Recommendations

The panel has reviewed and evaluated the institutional documents provided (report and supplementary documents) in making its recommendation.

☐ **Accept Report.** The panel concludes that the institution has substantially met its commitment in its report on financial indicators.

Rationale:

☐ **Accept Report With Qualifications.** Overall, the institution addressed the financial concerns adequately. However, the panel has concerns on the following matters that the institution should consider in future planning.

Specific concerns:

☒ **Recommend HLC Follow-up.** The panel reviewed the materials and has concerns that the institution may be at continued financial risk, explained below. The panel is recommending the following monitoring:

☒ Interim Report—due three months from the date of action*

☐ Focused Visit—to occur within six months of the date of action*

**HLC staff may adjust this follow-up to be included in future monitoring or a visit already scheduled with the institution.*

Specific financial risks, with explanation:

The report and information provided by the institution does not present a clear picture that the institution has appropriate policies and procedures in place to monitor its financial health. The minutes identify a new Financial Governance Policy that was adopted by the Board of Trustees on June 8, 2017, however, the specifics of that policy or the metrics used within that policy were not provided to the panel. Furthermore, the data trends identified in the monthly reports were not identified, discussed, and resulting actions taken by the institution presented to the panel.

The minutes note that enrollment seems to be an issue, however, there was no enrollment information provided other than that contained in the audited financial statements and snippets within board minutes. The Financial Sustainability plan identifies almost 100 initiatives, however, the impact of the initiatives for increasing revenue or controlling costs are not identified.

The institution has adopted an undergraduate tuition guarantee program, however, there is no discussion of how this plan is anticipated to impact the institution's finances into the future.

The information provided indicate the institution is focusing on improve the Net Operating Revenue and Return on Net Assets components of the CFI. However, there is no discussion of how the Primary Reserve and Viability ratios are affected and the overall impact on the future CFI for the institution.

In addition to providing the narrative identified in the previous paragraphs, the interim report, the institution should include the following documents:

- The audited FY 2017-18 financial statements, along with its projected CFI score based on those statements,
- The Financial Governance Policy adopted by the board at its June 2017 meeting,
- The three most recently monthly reports reviewed by the Board's Finance Committee,
- An update on the Enrollment Management evaluation and search for the VP for Enrollment Management,

- FTE enrollment by semester for the past two years,
- FTE enrollment projections for the next academic year used in the budgeting process,
- The status of the Fiscal Sustainability Plan and an estimate of the impact of the initiatives on the institution’s finances, and
- The contingency plan(s) if enrollment does not meet budget targets.

HIGHER LEARNING COMMISSION

230 South LaSalle Street, Suite 7-500
Chicago, IL 60604-1411
312.263.0456 | 800.621.7440
Fax: 312.263.7462 | hlcommission.org

January 18, 2019

Dr. Cheryl Schrader
President
Wright State University
3640 Colonel Glenn Hwy.
University Hall 260A
Dayton, OH 45435

Dear President Schrader:

This letter serves as formal notification and official record of action taken concerning Wright State University by the Institutional Actions Council of the Higher Learning Commission at its meeting on January 14, 2019. The date of this action constitutes the effective date of the institution's new status with HLC.

Action with Interim Monitoring. IAC concurred with the Financial Panel's findings and required an interim report due 4/30/2019 on issues identified by the November 2018 financial panel.

In two weeks, this action will be added to the *Institutional Status and Requirements (ISR) Report*, a resource for Accreditation Liaison Officers to review and manage information regarding the institution's accreditation relationship. Accreditation Liaison Officers may request the ISR Report on HLC's website at https://www.hlcommission.org/isr-request.

Within the next 30 days, HLC will also publish information about this action on its website at https://www.hlcommission.org/Student-Resources/recent-actions.html.

If you have any questions about these documents after viewing them, please contact the institution's staff liaison Linnea Stenson. Your cooperation in this matter is appreciated.

Sincerely,

Barbara Gellman-Danley

Barbara Gellman-Danley
President

CC: ALO

Wright State University
HLC Report on Financial Indicators

Explain the history of CFIs and the components of the ratios that have contributed to being in the zone or below the zone.

The components of the CFI scores for Wright State University are summarized in the following table.

	CFI Summary				
	Fiscal Year				
	2017	**2016**	**2015**	**2014**	**2013**
Primary Reserve Ratio	0.58	0.70	1.14	1.35	1.26
Net Operating Revenue Ratio	(0.40)	(0.40)	(0.40)	(0.32)	(0.18)
Return on Net Assets Ratio	(0.49)	(0.73)	(0.44)	0.21	0.00
Viability Ratio	0.92	1.05	1.46	1.59	1.49
	0.6	0.6	1.8	2.8	2.6

The primary contributors to the decline in the financial indicators are the primary reserve, return on net assets and viability ratios. The common factor in each of these ratios is the decline in net assets of $22.9 million, $36.5 million and $22.9 million for 2017, 2016 and 2015, respectively. The explanation for these declines is included in the Management's Discussion and Analysis (MD&A) section of each of the annual financial reports included with this submission. More specifically, the reviewer should read the sections on Statements of Net Position in the MD&A of those financial reports.

Determine the revenue and expense components that have had the greatest impact on the institution's financial health (e.g., enrollments, salaries and benefits, annual fund, capital, cash flow, margins, reserves and debt requirements).

- Unrestricted revenues for tuition and fees declined $10 million and auxiliary revenues declined $900K from 2015 to 2017. This decline was largely offset by increases in restricted revenues for grants and contracts. Consequently the net operating revenue ratio was flat for those three years, but remained negative. The decline in unrestricted revenues contributed to the decline in unrestricted net assets.
- Cash outflows for the purchase of capital assets exceeded inflows from state appropriations and gifts and grants by more than $79 million from 2015 to 2017 (refer to Statements of Cash Flow included in the annual financial reports).
- Operating expenses have fluctuated $4M to $10M higher than 2015 levels, with increases in instruction and departmental research offset by smaller declines in other categories. See Statements of Revenues, Expenses and Changes in Net Position.

Wright State University
HLC Report on Financial Indicators

Identify specific strategies that have been implemented to reestablish financial health (i.e., planning, enrollment, etc.). Indicate how and when those strategies were implemented, results achieved, gaps in the results and new strategies planned for continued improvement.

- The Board of Trustees of Wright State University named Dr. Cheryl B. Schrader as the University's president effective July 1, 2017.
- The financial leadership for the University is undergoing change, effective with the appointment of Walter J. Branson as the Vice President for Finance and Operations and Chief Business Officer on September 11, 2017.
- The Finance, Audit and Infrastructure Committee of the Board of Trustees adopted a "Financial Governance Policy" on June 8, 2017 which defines tight financial oversight by the trustees and detailed financial reporting from the administration. The policy has been implemented and the trustees are actively engaged with the administration in fiscal oversight functions. Monthly financial status reports are submitted to and reviewed with the Finance, Audit and Infrastructure Committee.
- .The University implemented austerity measures in 2017 to tightly control position vacancies, travel, use of procurement cards, purchases of computer equipment, and to reinforce the use of negotiated University procurement contracts.
- The University engaged a nationally known consulting firm to evaluate the enrollment management function. A search for a new vice president for enrollment management will be conducted in the next year.

Identify specific strategies that have been implemented to address revenue and expense components of the institution's financial health (e.g., enrollment, salaries and benefits, annual fund, capital, cash flow, margins, reserves and debt requirements). Indicate how and when those strategies were implemented, results achieved, gaps in the results, and new strategies planned for continued improvement.

- The unrestricted funds budget for fiscal 2018 called for a reduction in expenses of roughly $43 million. Preliminary results for 2018 indicate an operating surplus of $10 million. The contributing factor to the surplus is a reduction in expenses of $53 million.
    - Compensation was reduced $37 million through layoffs and the management of vacant positions.
- The unrestricted funds budget for fiscal 2019 calls for an additional expense reduction of $14 million over the 2018 budget, including a more modest reduction in workforce.
- Austerity measures implemented in the previous fiscal year are being continued.
- Stronger budget controls were implemented to assure that departments do not overspend their budgets.
- The University centralized summer revenue to capture $1 million of savings.

- Vacation hours for all unclassified and fiscal faculty were truncated on June 30, 2018 instead of August 31, 2018. This truncation will now occur annually at the end of June. This will reduce compensated absences accrued and included on the Statement of Net Position and the related expense recorded in the Statement of Revenues, Expenses and Changes in Net Position. Savings for fiscal 2018 were roughly $1.8 million.

Longer term initiatives include:

- Continued review of benefits and health care coverage to absorb anticipated inflationary increases in calendar years 2018 and 2019 and consideration of the stop loss limits for high cost claims.
- Implementation of an undergraduate tuition guarantee program.
- Permanent, base expense budget reductions to realign expenses to projected revenues.
- An enrollment management plan is being developed.
- A fiscal sustainability plan has been developed to enhance revenue and achieve operational efficiencies.
- A growth mindset advisory team, including trustees and campus leadership, has been formed to pursue new sources of revenue and to infuse growth planning into the culture of the University.

[redacted]

From: Vince Coraci <vcoraci@hlcommission.org>
Sent: Monday, November 05, 2018 11:17 AM
To: Edwards, Sue <susan.edwards@wright.edu>
Subject: HLC Financial Panel: Request for More Information

Good morning, Dr. Edwards.

The financial report for Wright State University is out for panel review and they have requested some additional information. They would like the following provided:

- The fiscal sustainability plan identified on page 3 of the report (bullet 5 under Longer term initiatives), but is not included in the materials provided.
- Information on the tuition guarantee program – this is identified on page 3 (bullet 2 under Longer term initiatives) and referenced in the minutes and financial statements as under consideration, but no information is provided in the report on how this plan is to work and what are the expectations. If this is included in the fiscal sustainability plan, there is no need for a separate document.
- On page 3 of the report there is a reference to "permanent, base expense reductions to realign expenses to projected revenues" (bullet 3 under Longer term initiatives). The minutes of the meetings mention budget reductions, but there is no plan presented to identify what the plan is for the future. If this is included in the fiscal sustainability plan, then there is no need for a separate document.

Please provide this information to me no later than November 14th so that the panel can complete their work on time. If there are any questions or concerns, please let me know.

Thanks,
Vince

Vince Coraci
Accreditation Processes Manager
(Institutional Data, Surveys and Indicators)
Higher Learning Commission
230 South LaSalle Street, Suite 7-500
Chicago, IL 60604-1411
800-621-7440 x147
http://www.hlcommission.org

Dear HLC

We are in receipt of your letter dated December 5, 2018 from the Financial Review Panel regarding Wright State University's Interim Report. We concur with your recommendation and will provide a written response within three months.

When we provided our initial response we were not able to include financial information from FY18 because our audit and financial report had not been completed. Although the State of Ohio has not approved the distribution of the university financial statements yet, I wanted to provide you with the updated HLC CFI using unreleased financial information. The table below contains the FY18 index along with the prior three years. Note the dramatic improvement in FY18.

		FY15	FY16	FY17	FY18
Indicator:	**Target**	**With CU[1]**	**With CU[2]**	**With CU[2]**	**With CU[2]**
Higher Learning Commission CFI:					
Composite Financial Index	>=3.0	1.76	0.63	0.61	2.00
Primary Reserve Ratio	>=0.4	1.14	0.71	0.58	0.73
Return on Net Assets	TBD	(0.44)	(0.73)	(0.49)	0.14
Viability Ratio	>=1.25	1.46	1.05	0.92	1.14
Net Operating Revenue Ratio	.02-.04	(0.40)	(0.40)	(0.40)	(0.01)

With CU[1] - includes WSU Foundation as Discretely Presented Component Unit

With CU[2] - includes WSU Foundation and WSARC as Discretely Presented Component Units

I hope this information is useful. As noted above we will be providing the detailed information that the Panel requested at a later date.

Please let me know if you need any further information.

Sincerely

Cheryl B. Schrader